



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

August 13, 2007

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

**Final Audit Report—Solana Center for Environmental Innovation Grant Agreement
UNP5-02-11**

Enclosed is the final report on our audit of the Solana Center for Environmental Innovation (Solana) Used Oil Non-Profit Grant agreement UNP5-02-11 for the period May 1, 2003 through April 30, 2005. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board). The audit included a review of revenue, expenditures, internal control, and compliance with certain grant agreement provisions.

Except as noted in the *Finding and Recommendation* section of this report, Solana complied with the fiscal requirements of its grant agreement. Solana's response and our evaluation of the response have been incorporated into this final report.

The enclosed report is for your information and use. We have also sent a copy to Solana. In accordance with Finance's policy of increased transparency, the final report will be placed on the Finance website.

If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Tom Estes, Deputy Director, Administration and Finance Division, California
Integrated Waste Management Board
Ms. Susan R. Villa, Acting Branch Manager, Administration and Finance Division,
California Integrated Waste Management Board
Mr. Roger Ikemoto, Grants and Audits Manager, Administration and Finance Division,
California Integrated Waste Management Board
Ms. Bonnie Cornwall, Supervisor, Used Oil and Household Hazardous Waste Unit,
California Integrated Waste Management Board
Ms. Sandra Atkinson, Board President, Solana Center for Environmental Innovation
Ms. Jacy Davis, Executive Director, Solana Center for Environmental Innovation
Mr. Denis E. Bohlman, Treasurer, Solana Center for Environmental Innovation
Ms. Diana Kovacs, Administrative Manager, Solana Center for Environmental Innovation

AG_{GRANT}AUDIT

Solana Center for Environmental Innovation
Used Oil Non-Profit Grant
Grant UNP5-02-11
For the Period May 1, 2003
through April 30, 2005

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board).

The Board awarded a \$292,680 grant (UNP5-02-11) to the Solana Center for Environmental Innovation (Solana) to participate in the Used Oil Non-Profit Grant Program. The grant agreement was funded by the Used Oil Recycling Fund and covered the period May 1, 2003 through April 30, 2005.

The objective of this audit was to determine Solana's fiscal compliance with the aforementioned grant agreement. The audit also assessed Solana's compliance with applicable laws, regulations, and grant agreement requirements, as well as a review of internal control. We did not assess the efficiency or effectiveness of program operations; this responsibility lies with the Board. The responsibility for financial reporting and compliance rests with Solana.

This report is intended for the information and use of Board and Solana management. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Frances Parmelee, CPA
Manager

Rick Cervantes, CPA
Supervisor

Danielle Dannible



INDEPENDENT AUDITOR'S REPORT

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

We have audited the accompanying Solana Center for Environmental Innovation's (Solana) *Statement of Revenue and Expenditures* (Statement) for grant agreement UNP5-02-11 for the period May 1, 2003 through April 30, 2005, executed between Solana and the California Integrated Waste Management Board (Board). The Statement was prepared from Solana's records and is the responsibility of Solana's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared, as described in Note 4, for the purpose of determining Solana's fiscal compliance with the aforementioned grant agreement. The Statement is not intended to be a presentation of Solana's total revenue and expenditures.

As discussed in the accompanying schedule of *Finding and Recommendations*, we questioned indirect expenditures totaling \$52,653, which represent 25 percent of the total claimed costs.

In our opinion, except for the matter discussed above, the Statement referred to above presents fairly, in all material respects, the claimed and audited revenue and expenditures, for grant agreement UNP5-02-11, for the period May 1, 2003 through April 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of Solana's compliance with certain provisions of laws, regulations, and the grant agreement, noncompliance with which could have a direct and material effect on the determination of Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported herein under *Generally Accepted Government Auditing Standards* and is described in the *Finding and Recommendations* section of this report.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered Solana's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide assurance on the internal controls over financial reporting. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal controls over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of Board and Solana management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

May 3, 2007

STATEMENT OF REVENUE AND EXPENDITURES

Solana Center for Environmental Innovation
Used Oil Non-Profit Grant Agreement UNP5-02-11
For the Period May 1, 2003 through April 30, 2005

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
State Grant	\$210,655	\$210,655	\$ 0
Expenditures:			
Publicity and Education	65,511	65,511	0
Personnel and Other	<u>145,144</u>	<u>92,491</u>	<u>52,653</u>
Total Expenditures	<u>210,655</u>	<u>158,002</u>	<u>52,653</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 52,653</u>	<u>\$52,653</u>

The accompanying notes are an integral part of this statement

NOTES TO THE STATEMENT OF REVENUE AND EXPENDITURES

Solana Center for Environmental Innovation Used Oil Non-Profit Grant Agreement UNP5-02-11 For the Period May 1, 2003 through April 30, 2005

NOTE 1 Description of the Reporting Entity

The Solana Center for Environmental Innovation (Solana) was founded in 1983. Known as Solana Recyclers in the early days, it pioneered the first comprehensive curbside recycling program in San Diego County and one of the first community-based recycling programs in the State of California. In 1996, it left the recycling collection business to focus on community outreach, public education, and creating new markets for recycled products. In June 2003, Solana Recyclers changed its name to Solana Center for Environmental Innovation.

NOTE 2 Program Information

The California Integrated Waste Management Board (Board) administers the California Oil Recycling Enhancement Act, which includes the disbursement of Used Oil Non-Profit Grants from the Used Oil Recycling Fund.

The Legislature enacted the California Oil Recycling Enhancement Act (Public Resources Code Sections 48600 through 48691) to reduce the illegal disposal of used oil, and to recycle and reclaim used oil to the greatest extent possible. A portion of the account is issued as grants to local government and agencies directly responsible for solid waste management. The intent of the grant funds is to expand, implement, and/or improve used oil collection opportunities.

NOTE 3 Description of the Used Oil Non-Profit Grant Agreement

Solana received a \$292,680 grant award from which it claimed and was reimbursed \$210,655 in grant funds. The grant is competitive, provides funding to Solana to recycle used oil, and is used for publicity and educational materials that promote used oil collection in Riverside and San Diego. The funds are also used to promote the use of re-refined oil use to local municipalities, commercial fleets, and lube centers. The grant agreement covers the period May 1, 2003 through April 30, 2005.

NOTE 4 Summary of Significant Accounting Policies

A. Basis of Presentation

The Statement presented in this report was prepared from Solana's financial transactions, accounts, and records. The Statement for Grant UNP5-02-11 summarizes the revenue and expenditures recorded by Solana during the period May 1, 2003 through April 30, 2005 only, and is not intended to represent all of Solana's financial activities.

B. Basis of Accounting

Solana's accounts are maintained on an accrual basis and in accordance with generally accepted accounting principles practiced in the United States. Under the accrual basis, revenues are recognized as the related services are provided. Expenses are recorded as they are incurred.

FINDING AND RECOMMENDATIONS

During our audit of grant agreement UNP5-02-11, we identified areas where fiscal controls over grant funds had been established and were working as intended. The audit also identified a reportable compliance issue requiring corrective action. The following recommendations, if implemented, will improve Solana Center for Environmental Innovation's (Solana) fiscal control over grant funds and protect the interest of Solana and state interests in the event of disputes.

FINDING Disallowed Indirect Expenditures

Condition: Excessive indirect expenditures totaling \$52,653 were charged to the grant. Solana claimed indirect expenditures totaling \$78,987 when the maximum allowable amount is \$26,334. Based on the grant agreement, the allowed indirect expenditures were determined by applying 20 percent to the claimed direct expenditures. See the calculations below for the questioned costs.

Total Claimed Expenditures	\$ 210,655
Less: Claimed Indirect Expenditures ¹	<u>(78,987)</u>
Claimed Direct Expenditures	<u>\$ 131,668</u>
 Claimed Indirect Expenditures	 \$ 78,987
Allowed Indirect Expenditures (\$131,668 X 20%)	<u>(26,334)</u>
Disallowed Indirect Expenditures	<u>\$ 52,653</u>

Criteria: The Used Oil Non-Profit Grant, Fifth Cycle, Procedures and Requirements state in part that the total cost of overhead and indirect cost charged to the grant shall not exceed 20 percent of the grant funds expended. The grant also states that the indirect cost calculation is based on direct costs.

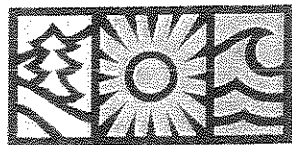
Recommendations: Remit \$52,653 to the Board for reimbursed disallowed expenditures. The Board will make the final determination and resolution of the questioned costs.

Ensure that all future claimed expenditures are in compliance with the grant agreement.

¹ Claimed indirect expenditures are calculated by multiplying the claimed hourly indirect cost rate (\$23.75) by the claimed personnel hours (3,325.75). Thus, claimed indirect expenditures are \$78,987 (rounded to the nearest whole dollar).

SOLANA'S RESPONSE

Solana Center



for Environmental Innovation

July 10, 2007

Department of Finance
Diana L. Ducay, Chief
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Re: Draft Audit Report – Solana Center for Environmental Innovation Grant Agreement
UNP5-02-11

Dear Ms. Ducay,

On June 25, 2007, we received the Draft Audit Report of the Solana Center for Environmental Innovation Grant Agreement UNP5-02-11 which was dated June 18, 2007. Through the Nonprofit Used Oil grant program the Solana Center has greatly appreciated having the opportunity to work on programs that have delivered new outreach programs to the residential and agricultural sectors in San Diego and Riverside counties, as well as increased the use of Re-refined motor oil in fleets throughout the San Diego region.

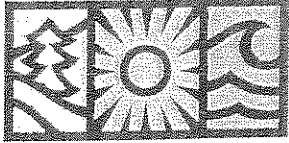
With regard to the “Disallowed Indirect Expenditures” finding in the audit report we do wish to respectfully disagree with findings. First of all it is to be noted that the Grant Application did not contain any provisions for an overhead limitation; therefore, our Grant Proposal was not based upon such a limitation. In reviewing both our historical internal administration fund tracking documents, as well as the CIWMB “Procedures and Requirements” document (received after the noted period of performance began) and related correspondence from May 2003, we believe that there are revised calculations that will provide adjustments.

With respect to how Solana has calculated our direct costs, we are reserving the right to further review our documentation to confirm that we did in fact capture all of the allowable direct costs as it pertains to staff salaries and benefits. Given that we worked on UNP4 just prior to this period and there was no cap on overhead/indirect costs, we believe that we may have inadvertently included some allowable employee benefits in our “admin” or overall overhead department which will impact our indirect costs. Also, further time is required to verify the rates and hours contained in the findings.

With respect to the 20% cap on Overhead and Indirect Costs, it appears that this is an area that has historically been unclear between CIWMB grant staff and other UNP5 grantees we have spoken with. The UNP5 grant is

137 N. El Camino Real
Encinitas, CA 92024
Ph: (760) 436-7986 ext 210
Fax: (760) 436-8263
www.solanacenter.org

Solana Center



for Environmental Innovation

explicit as set forth on page 14 of the Procedures and Requirements (P&R) which states: "The total cost of overhead and indirect cost charged to the grant shall not exceed twenty percent (20%) of the grant funds expended". Moreover, accompanying the P&R was a letter dated May 16, 2003, from the manager of the CIWMB Used Oil and Household Hazardous Waste Branch. This letter reemphasized the grant language and stated: "The total cost of overhead and indirect cost charged to the grant shall not exceed twenty (20%) of the grant funds expended."

The findings also stated within its "criteria" section that "the grant also states that the indirect cost calculation is based on direct costs." Page 15 of the P&R states: "See the sample "Cost Allocation Plan" calculation below: Total department indirect cost divided by total department direct cost base equals indirect cost rate." The key word being "sample" which differs from a more clear and direct statement like "the acceptable cost allocation plan calculation is....." As a point of reference, our cost allocation plan utilized for UNP5 was implemented after the UNP4 grant audit in which the state auditors approved the methodology. Our methodology does show that our indirect cost calculation and allocation is based on the direct costs of each of the grants/contracts Solana carries out.

On behalf of the Solana Center and its Board of Directors, we would like to say that our experience in working with Department of Finance staff through this audit has been a good one and we appreciate their patience in working with the current staff at Solana which did not actually work on this grant. The Solana Center also acknowledges that it has been a great pleasure having had the opportunity over many years to work with CIWMB grant funds that have helped to effect quantifiable positive change for our local communities and our environment. We continue to value the direct and indirect working relationship we have had with the CIWMB for the various program areas we work on with respect to used motor oil and household hazardous waste.

If there are any further clarifications we can make, please feel free to contact our staff directly if there are any questions we can answer. We thank you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Sandra G. Atkinson", written over a horizontal line.

Sandra G. Atkinson
Board President

137 N. El Camino Real
Encinitas, CA 92024
Ph: (760) 436-7986 ext 210
Fax: (760) 436-8263
www.solanacenter.org

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EVALUATION OF SOLANA'S RESPONSE

We have reviewed Solana Center for Environmental Innovation's (Solana) response to the draft audit report. The following comments are provided in response to Solana's disagreement with the finding.

- Solana stated that the grant application did not contain provisions for limitations of indirect expenditures. In Exhibit A, Section 19 of the grant agreement, it states that the grant agreement supersedes the grant application. The Procedures and Requirements Section, Exhibit B of the grant agreement also contains the provision to limit indirect expenditures and states that Solana will abide by the provisions in the grant agreement. This grant agreement was signed by Solana.
- Solana requested the right to identify unclaimed eligible direct expenditures to offset the disallowed indirect expenditures. At an exit conference held on May 3, 2007 to discuss the finding, Solana was provided an opportunity to identify unclaimed eligible direct costs to offset the disallowed expenditures. Solana was allowed over 60 days—from May 3 until July 10, the date of Solana's response—to identify unclaimed eligible direct costs.
- Solana stated that the application of the 20 percent indirect expenditure cap was unclear. The grant agreement provides an example to clarify that the 20 percent cap for indirect expenditures is based on direct claimed expenditures. In addition, Solana stated that its indirect cost allocation methodology is based on direct costs.
- Solana stated that the cost allocation plan used for UNP5 was approved by state auditors. The cost allocation plan was not questioned; our finding addressed the fact that Solana claimed indirect expenditures in excess of the 20 percent cap.

For the issues discussed above, our finding and recommendations remain unchanged. Solana should remit \$52,653 to the Board; however, the Board will make the final determination and resolution of the disallowed expenditures.